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FM AMEMBASSY DOHA
TO RUEHC/SECSTATE WASHDC PRIORITY 8384
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUEHGB/AMEMBASSY BAGHDAD 0226

C O N F I D E N T I A L SECTION 01 OF 03 DOHA 000782

SIPDIS

E.O. 12958: DECL: 11/05/2018
TAGS: EFIN EINV ECON QA IR IZ
SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT'S MEETINGS WITH
QATARI FINANCE OFFICIALS

REF: A. DOHA 781
 1B. DOHA 505

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Classified By: Amb. Joseph LeBaron for Reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Deputy Treasury Secretary Kimmitt met Oct. 29 with Qatar's Finance and Economy Minister and Deputy Central Bank Governor to explain USG actions in response to the global financial crisis and to solicit Qatar's views.

-- The Finance and Economy Minister welcomed the USG rescue package and noted that Qatar would like to see stability for energy prices and cross-border investments as agenda items for the upcoming G-20 summit.

-- Qatar is monitoring the health of local banks closely and is prepared to intervene as needed to shore up any banks facing problems, according to the two Qatari officials,

-- The Central Bank has not found it necessary to take any major action in response to the financial crisis. It is watching Iranian Bank Saderat's activities closely but the bank's presence in Qatar remains minimal.

-- On Iraqi debt, Qatar's USD 3 billion of outstanding Iraqi debt is a "political issue" which needs to be addressed with Qatar's senior political leadership.

END KEY POINTS.

11. (C) Deputy Treasury Secretary Robert Kimmitt met October 29 with Finance and Economy Minister Yousef Hussain Kamal and Qatar Central Bank (QCB) Deputy Governor Shaykh Fahad Bin Faisal Al Thani. Also participating in the meetings from the U.S. side were Ambassador, Treasury Deputy Assistant Secretary for the Middle East Andy Baukol, Treasury Attach Matt Epstein, Press Spokesperson Rob Saliterman, and Econoff. (See septel for a readout of the delegation's meeting with Qatar Investment Authority Executive Board Member Dr. Hussein Al-Abdulla).

Qatar's "Boutique" Financial System Faring Well

12. (C) Deputy Secretary Kimmitt began by explaining to Minister Kamal that he felt it was important to come to Qatar to share U.S. perspectives on the financial crisis and obtain Qatar's views as the USG prepares to convene the G-20 summit next month. He emphasized that recent USG actions have taken the fear of a financial system collapse out of the market and

laid the foundation for a recovery. While confidence has been restored, there is continued concern about future growth, even though long-term prospects are good and investors see opportunities. Deputy Secretary Kimmitt noted positive moves in the credit markets and said he remains very optimistic about the long-term strength of the U.S. economy despite the current difficult period.

¶3. (C) Kamal responded that despite the crisis there are "lots of people making money all over the world, including here in Qatar." However, the Qatari markets have been affected because of the inter-connected nature of the modern financial system, while rapid media dissemination of problems in the U.S. and elsewhere spreads fear to Qatari investors. He added that most Qatari banks and companies only operate locally but are still affected by global markets, as international credit lines have been cut. As a result, the GOQ decided to extend lines of credit locally and has assured banks that it will increase its own deposits, if needed, as foreign investors withdraw money. Kamal portrayed Qatar as a "boutique" financial market and asserted that the small size of the banking sector allows the government to manage any problems. Moreover, Qatar has placed more stringent requirements on its banks than the U.S. or Europe by not allowing leverage to exceed 10 times their assets.

¶4. (C) Kamal was generally optimistic about long-term global growth prospects, saying he thinks the USG rescue package will work. He noted the GOQ is planning to maintain or increase its budget next year, especially for infrastructure projects and related imports. Underscoring that "we're going to help ourselves and others," he said Qatar's recent purchase of larger stakes in European banks is in part intended to inject cash into the system to help unstick the markets.

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GOQ Wants Energy, Cross-Border Investment
on Agenda for G-20 Summit

¶5. (C) Explaining the genesis and rationale for the upcoming G-20 summit, Deputy Secretary Kimmitt noted that the idea of holding the meeting originated with the Europeans. The U.S. has since embraced it and agreed to act as host.

Acknowledging that Prime Minister/Foreign Minister Shaykh Hamad Bin Jassim Al Thani (HB) contacted the USG and encouraged Qatar's participation, the Deputy Secretary said the U.S. believed limiting participation to the G-20 - which was formed after the Asian financial crisis - seemed to be the right group for a summit that needed broad geographical representation but also needed to be prepared quickly. He emphasized that he was in Qatar to listen to views and that part of the agenda for the first summit is to develop a way to take others' views into consideration in future meetings; it will be important for Qatar to give its input and play a substantive role in the emerging global process.

¶6. (C) Kamal noted that he has not discussed the issue with Shaykh Hamad but since Saudi Arabia is participating expected that the Saudis would represent the views of Qatar and the GCC at the summit. He said oil, gas, and cross-border investments are Qatar's main concerns. Specifically, oil should be stabilized at a reasonable price, which in Kamal's view is less than USD 90 per barrel, but not too low that it would discourage long-term investments. Qatar seeks balance and market stability. For the summit outcome, Kamal noted he would like to see "reasonable ideas, not just beautiful wording," arguing that a major goal should be reaching agreement on specific objectives as opposed to general ideas.

Deputy Secretary Kimmitt responded that he will take that message back to Washington, agreeing that we also seek specific results. This is important because the markets want to see forward movement.

¶ 7. (C) Kamal raised the Bretton Woods system, offering that it does not need major revisions but fine-tuning. Deputy Secretary Kimmitt agreed, noting that the rise of new economies and regional organizations since the establishment of the World Bank, IMF, and WTO requires updating those institutions to reflect current global economic realities. Kamal underscored that the overall concept does not need to be changed, suggesting merely that the means of governance in those institutions required adjustment. He warned there is a danger of making false analogies with the 1930s; and there is no need for extreme measures in his view.

Political Concerns Over Sovereign Wealth Funds

¶ 8. (C) Turning to sovereign wealth funds (SWFs), Deputy Secretary Kimmitt told Kamal that the USG is trying to guard against protectionism and was concerned with President Sarkozy's idea for a new French SWF with a clearly political and protectionist purpose. This is out of step with the recently-announced Santiago Principles, which emphasize that SWF investments are for commercial not political purposes. He thanked Qatar for its constructive role in the IMF/SWF working group and noted that the established principles give governments a tool to respond to political concerns, thereby facilitating the commercial operation of SWFs. He also underscored that the USG and others must continue to emphasize their openness to foreign investment. He lamented that when people talk about Foreign Direct Investment (FDI) they hear the word "foreign" twice as loud as "investment." Kamal concurred with the Deputy Secretary's analysis, and the conversation then moved into a discussion of a possible bilateral tax treaty (Ref A).

Financial Controls as a Competitive Advantage

¶ 9. (C) On anti-money laundering and combating the financing of terrorism (AML/CFT), Deputy Secretary Kimmitt noted the USG has taken a multilateral approach on technical issues via the Financial Action Task Force (FATF), but also recognizes there are important political aspects to these issues which are best dealt with bilaterally. He said we had strong concerns about Qatari funding of Hamas and other groups in the Middle East, and he encouraged Qatar to think carefully about the reputational risks of such funding to its growing financial ambitions. He underscored that a good AML/CFT system is a competitive advantage for a country like Qatar,

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and U.S. investors often make this point to Treasury in discussing investment options. Kamal responded that Qatar has one of the best AML/CFT systems in the world - "because we are boutique" - and has no shortage of people asking for licenses. He added that while Qatar is trying to establish itself as a financial center, the first priority of the Amir and the GOQ remains education.

Iraqi Debt a "Political Issue"

¶ 10. (C) The meeting concluded with a brief discussion of Iraq's debt held by Qatar. Kamal said the approximately USD 3 billion in outstanding loans to Iraq, not counting interest, is "more a political than a technical issue." Kamal said this subject needed to be addressed to Shaykh Hamad. Kamal asked if the USG believes Iraq is using its money in the right way. Deputy Secretary Kimmitt responded that the GOI has a strong financial team and the Finance Ministry and Central Bank are doing well. However, he observed that Iraq is having trouble on budget execution, in part because of a centralized legacy and the (good) controls

the Iraqis have put in place to stop corruption.

No Need for Major Central Bank Actions

¶111. (C) In a separate meeting, Deputy Central Bank Governor Shaykh Fahad Bin Faisal Al Thani told the Deputy Secretary the Central Bank has not taken any special actions during the global financial crisis and continues to invest in the U.S. dollar. In fact, Qatar had increased its holdings of Treasury notes to 90 percent of reserves. The bank has also continued to buy GSE mortgage paper, which is performing "ok so far." Al Thani noted that the Central Bank had met recently with local bank chairmen, offering to help with liquidity problems, even though "most are fine and nothing is wrong here." Still, the Ministry of Finance had increased its deposits in local banks. Al Thani added that the GOQ is making the same offer to foreign banks with local branches, such as HSBC and Standard Chartered, and will help any bank with liquidity problems as the need arises. Locally, the main concern is the large drop in prices on the Doha Securities Market (DSM).

Monitoring of Iranian Financial Activity

¶112. (C) Turning to AML/CFT issues, Shaykh Fahad (who heads the GOQ's AML/CFT Committee) noted the bank regularly receives "blacklisted names" (i.e., UN 1267 committee lists) from Qatar's UN mission and also coordinates closely with the U.S. embassy on AML/CFT matters. Local banks usually don't have any relevant assets, but Qatar now has a live, online bank reporting system in order that the FIU can monitor transactions in real-time. He added that the QCB is monitoring Iran's Bank Saderat more carefully than other banks, including its deposits in other banks. Shaykh Fahad noted the bank does not have many assets in Qatar and can be monitored easily. While the QCB did allow the bank recently to open a second branch based on an old license (Ref B), the GOQ will not grant the bank a new license. Shaykh Fahad said he is relatively more concerned about Iranian entities using real estate investments as a way to hide or transfer money. However, the Qatari Ministry of Justice recently investigated these concerns and found no evidence of nefarious Iranian behavior in the real estate market. He concluded by noting that banks do not allow accounts for charities and that Qatar has a separate authority to monitor their behavior (The Qatar Authority for Charitable Activities).

LeBaron